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TAGS: [ECON](#) [ETRD](#) [ENRG](#) [EINV](#) [PGOV](#) [IZ](#)
SUBJECT: SOUTH OIL COMPANY INCREASES OUTPUT

REF: BASRAH 69

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Basrah, DOS.
REASON: 1.4 (b)

¶1. (C) Summary: The Director General of the South Oil Company (SOC), Jabbar al-Ueibi, met with the Deputy Regional Coordinator (DRC) on July 13 and reported that SOC's crude oil production has risen from 1.7 million barrels per day (bpd) at the end of 2005 to slightly more than 2 million bpd at present. He projected that output by SOC will rise to 2.25 million bpd by the end of 2006. He commented that natural gas production has risen to 80 million standard cubic feet per day (scfpd) from 20 million scfpd in 2004. He declared that SOC's current oil and gas production is a fraction of the potential and expressed the hope that the coming Iraqi investment law will provide incentives for foreign companies in the energy sector. End summary.

OIL OUTPUT RISES

¶2. (C) Al-Ueibi proudly stated that he has single-handedly increased oil output. He attributed the increase to improvements in surface installations and reconstructed pumping stations damaged in the 1991 war. He said his company was able to accomplish this work without help from the Ministry of Oil (MoO) in Baghdad, which he characterized as a hindrance rather than a help (see reftel). He noted that except for 350,000 bdp reserved for domestic use, all of the SOC output is exported. He complained that the MoO keeps all the proceeds and returns nothing to the SOC.

¶3. (C) Al-Ueibi indicated that natural gas production has risen to 80 million standard cubic feet per day (scfpd) from 20 million scfpd in 2004, an achievement that he described as a "miracle," in light of the bureaucratic obstacles caused by the MoO and the lack of investment by foreign oil companies. SOC used "scrap" materials 15-20 years old to build four gas drying stations, each of which is capable of capturing 20 million scfpd, according to al-Ueibi. The SOC chief said that current oil and gas production is only a fraction of the potential. He noted that the oil fields of Basrah are capable of producing 45 million bpd, and 700-800 million scfpd of natural gas are flared.

SECURITY AND SMUGGLING

¶4. (C) The SOC president observed that the current climate of instability in Basrah has not hampered SOC operations because the company maintains balanced relations with all the political factions in the city. He added that tribes in the province provide a measure of protection for SOC installations but the relationship is not reliable. Nonetheless, the atmosphere of uncertainty and turmoil causes chronic pressure and he did not know how long this could be endured. For example, because of

the outflow of educated people from Basrah, it was difficult for SOC to retain qualified staff. Addressing the issue of oil smuggling, al-Ueibi commented that smuggling of crude is very limited and what is transported illegally out of the country is benzene, gasoline, fuel oil, and other refined products.

15. (C) Al-Ueibi expressed hope that the new Iraqi investment law, which is under consideration by lawmakers in Baghdad, will provide incentives for foreign oil companies to enter Iraq. He revealed that SOC maintains good relations and regular contacts with Chevron, British Petroleum,, Exxon-Mobil, and Shell, among others, and all are interested in investing in Iraq. He said that of the 74 known oil fields in Iraq, only 15 are being developed at present, so there is significant opportunity.

16. (C) Comment: Al-Ueibi is known for having put the oil industry in southern Iraq back on its feet almost single-handedly after it was shattered in the most recent war. He is a strong critic of the bureaucratic obstacles thrown up by the MoO and contends that there was greater cooperation from Baghdad during the former regime. Nevertheless, he is optimistic about the long-term future of Basrah after stability is established and the bureaucracy becomes manageable. End comment.

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